# Listed property in mall migration

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What do Lephalale, Mahwelereng, Jozini, Bochum, Burgersfort, Mthatha, Phuthaditjhaba, Secunda, Bushbuckridge and Khayelitsha have in common?

They are all luring multimillion rand inflows from shopping centre developers and listed property funds keen to cash in on SA's underserviced rural and township retail markets.

Until recently, Resilient Property Income Fund, sister fund Fortress and Vukile Property Fund were the sector's only players of note in the nonmetro retail property space.

But now newly listed funds including Synergy Income Fund, Dipula Income Fund, Rebosis Property Fund and Investec Property Fund are also getting in on the act.

In the six months since Synergy listed in December, the fund has increased its rural/township retail assets fourfold - from three shopping centres worth R280m to 14 worth R1,7bn.

Synergy, which partners food retailer Spar, focuses on midsized centres of 10000m²-25000m² aimed at middle to lower-income shoppers. Recent acquisitions include Gugulethu Square in Cape Town, Setsing Crescent in Phuthaditjhaba (Free State), KwaMashu Shopping Centre in KwaZulu-Natal and Highland Mews in Witbank.

Dipula has bulked up its retail-focused portfolio with six rural shopping centres since listing in August last year. These include Plaza Shopping Centre in Phuthaditjhaba, Bushbuckridge Shopping Centre in Mpumalanga, Bochum and Blouberg Plaza in Limpopo and Nquthu Plaza in KwaZulu Natal.

Investec Property Fund, whose portfolio comprises mostly office and industrial buildings, recently expanded its footprint into rural/township markets with the acquisition of the Great North Road Plaza in Musina and Nonkqubela Link Mall in Khayelitsha.

Over the next year Vukile, owner of Phoenix Plaza in Durban, Dobsonville Shopping Centre in Soweto and Daveyton Shopping Centre on the East Rand, also wants to aggressively grow its exposure to emerging markets.

The fact that rural/township malls can be more lucrative than their counterparts in largely saturated metropolitan areas is clearly illustrated by the above-market returns generated by the Resilient group, one of SA's early pioneers of platteland retail developments.

Figures from Absa Asset Management fund manager Mariette Warner show that Resilient is the JSE's top performing property stock over five years in terms of earnings growth. Resilient's average 15.3%/year growth outstrips the below 10%/year achieved by funds with sizeable retail portfolios in the big cities like Acucap Properties, Sycom Property Fund, Growthpoint Properties and Fountainhead Property Trust.

So it's not surprising that others are eager to follow suit. "Rural/township retail property returns have been boosted by the significant growth of the black middle class and rapid expansion of government's social grant system over the past five years," says Nesi Chetty, head of property at Momentum Asset Management.

As a result, listed property funds are generally able to achieve better trading densities (turnover/$m^2$) and higher footfalls in these malls than in their urban counterparts. Chetty says this is particularly true for the so-called commuter malls - centres near taxi ranks and other public transport routes.

However, the question arises whether the rural/township retail sector is in danger of becoming overtraded.

Synergy CEO William Brooks believes it will take at least another five years for formal retail supply in many rural/township areas to catch up with demand. "The fact is that SA has a structural undersupply of quality retail assets in lower LSM nodes. In addition, the lower LSM market is showing the highest growth in retail demand. That's why midsized commuter centres in rural/township nodes are seen as a compelling growth story by retailers and property owners alike."

Brooks says malls that cater to lower LSM shoppers are generally also less dependent on discretionary spend, which makes for more stable trading densities.

But Johann Kriek, who heads the Resilient group's retail division, says it's becoming more difficult to achieve the super returns still seen in nonmetro retail markets 2-3 years ago. And not every mall built in a nonmetro is a "sure thing".

Kriek says some rural malls are already sitting with vacancies as high as 50%. "Some developers will burn their fingers. For a mall to be successful it needs to have dominance in a particular area, have the right tenant mix and offer easy access to public transport."

Source: *Financial Mail*